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ABSTRACT

The passage of H.R. 12274, the Middle Income Student Assistance Act, to amend Title IV of the Higher Education Act of 1965 to increase the availability of assistance to middle-income students is recommended in this House report from the Committee on Education and Labor. The purpose of H.R. 11274 is to provide needed financial assistance to students from hard-pressed working class and middle-income families. The bill expands and improves five existing programs of financial assistance: Basic Educational Opportunity Grants (BEOG); the Guaranteed Student Loan Program (GSLP); Supplemental Educational Opportunity Grants (SEOG); College Work-Study Program (CWSP); and the State Student Incentive Grants (SSIG). The main provisions of the bill are summarized and the following information is provided: (1) background and need for the legislation; (2) hearings and committee action; (3) the programs; (4) miscellaneous amendments; (5) inflationary impact; (6) oversight; and (7) cost estimates. A section-by-section description of the bill is provided along with changes in existing law made by the bill. (SPG)

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95TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 95-951

ED153539

MIDDLE INCOME STUDENT ASSISTANCE ACT

MARCH 14, 1978.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. PERKINS, from the Committee on Education and Labor, submitted the following

REPORT

together with

ADDITIONAL VIEWS, INDIVIDUAL VIEWS, AND DISSENTING VIEWS

[To accompany H.R. 11274]
[Including cost estimate of the Congressional Budget Office]

U S DEPARTMENT OF HEALTH
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
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The Committee on Education and Labor, to whom was referred the bill (H.R. 11274) to amend title IV of the Higher Education Act of 1965 to increase the availability of assistance to middle-income students and to amend section 1208 of such Act, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment to the text of the bill strikes out all after the enacting clause of the bill and inserts a new text which appears in italic type in the reported bill.

SUMMARY OF MAIN PROVISIONS

The purpose of H.R. 11274, the Middle Income Student Assistance Act, is to provide needed financial assistance to students from hard-pressed working class and middle-income families. In expanding benefits to students from middle-income families, H.R. 11274 does not create any new programs, bureaucracies or forms, and it protects and increases the benefits for students from low-income families.

The bill expands and improves five existing programs of student financial assistance—basic educational opportunity grants (BEOG); the guaranteed student loan program (GSLP); supplemental educational opportunity grants (SEOG); college work-study program (CWSP); and the State student incentive grants (SSIG).

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Under the BEOG program, H.R. 11274 would make students from families with incomes up to $26,000 eligible for a basic grant. Currently, only those with incomes up to $15,000 receive awards. This increase will be accomplished by lowering the income assessment rate on discretionary income to 10.5 percent, from the current rate of 20 percent of the first $5,000 in discretionary income and 30 percent of all income thereafter. Discretionary income begins at $7,491. Over 1½ million new students are expected to be eligible for BEOG awards. The bill also contains provisions to insure protection of awards for lower income students.

If appropriations are not sufficient to fund the program at the 10.5 percent rate, the income assessment rate will automatically increase to 12 percent. This will provide awards to students from families with incomes up to $23,500, while insuring that the awards for lower income individuals remain fully funded. Finally, changes are made in the method of calculating an award for financially independent students, particularly those with dependents of their own, to increase the eligibility of these students.

Under present law, only students from families with adjusted incomes of less than $25,000 are eligible for subsidized interest payments on a guaranteed student loan. The bill removes this limitation entirely. Under the provisions of H.R. 11274, every eligible full-time or half-time student in the country would be entitled to receive federally subsidized interest payments on a guaranteed loan during the time the student is attending a postsecondary institution and up to 9 months thereafter. The bill also makes several improvements which should make participation in the GSLP more attractive to lending institutions and increase the availability of capital.

The minimum funding threshold in the SEOG program is increased to $340 million. This is an increase of $70 million above current appropriations (fiscal year 1978) and is expected to provide an additional 133,945 awards at an average of $530.

The minimum funding threshold in the CWSP is increased to $520 million, an increase of $82 million above fiscal year 1978 appropriations. An estimated additional 144,678 jobs at an average of $590 per job will result.

In the SSIG program, an additional $10 million above the President's original request of $77 million is called for. This is expected to provide an additional 20,000 awards at an average of $500 per award ($250 Federal share).

Background and Need for the Legislation

On February 8, 1978, President Carter announced a major expansion of Federal student assistance programs to assist students from moderate- and middle-income families in meeting the constantly growing cost of obtaining a postsecondary education.

In his statement, President Carter said:

> Today the cost of sending a son or daughter to college is an increasingly serious burden on America's low- and middle-income families. From 1967 to 1976, in just a ten year period, the cost of a college education increased 77 percent.

> This year the average bill for tuition, room and board in a private college is more than $4,800 and in a typical public university a student would have to pay $2,500 per year for education-related costs.

The President continued by stating:

> Increasingly, middle-income families, not just the lower-income families, are being stretched to their financial limits by these new and growing costs of a university or college education. No one should be denied the opportunity for a college education for financial reasons alone. And our Nation has long recognized our obligation to help lower income families in this educational area.

The President then stated that:

> Now we must increasingly take steps to help middle income families as well.

The President's proposal as embodied in the Middle Income Student Assistance Act (H.R. 11274) is a balanced and coordinated package of Federal college grant, loan and work-study programs. The expansion of these existing programs will provide financial assistance to millions of middle-income students who are now ineligible for most financial aid programs. In accomplishing this objective the level of Federal assistance to students from low-income families is not reduced. It is, in fact, also increased.

The Middle Income Student Assistance Act (MISAA) represents the biggest single infusion of funding for middle-income college students since the adoption of the GI bill at the end of World War II. It responds to the needs of hard-pressed middle-income students by authorizing up to $4.7 billion in fiscal year 1979 within the framework of existing student assistance programs. It does not create any new programs, bureaucracies, or forms.

H.R. 11274 has received widespread support from virtually every sector of the postsecondary education community.

For example, the American Council on Education sent the following telegram to Congressman William D. Ford, chairman of the Subcommittee on Postsecondary Education, upon the introduction of the Middle-Income Student Assistance Act.

WASHINGTON, D.C.

Congratulations on behalf of the American Council on Education for your sponsorship of legislation to increase student aid by $1.2 billion as an alternative to tax credits. The higher education community strongly supports the use of existing aid programs as the most effective way to help middle-income families meet the costs of higher education. We pledge to work with the administration and the Congress to assure the most equitable and balanced distribution of funds among existing programs to meet the needs of students attending all types of institutions. Prompt enactment of such legislation will mark a new milestone in extending postsecondary opportunities.

J.W. PELTASON,
President, American Council on Education.

On March 9, the day after the Committee ordered the bill reported, the president of the American Council on Education, along with the presidents of the National Association of Independent Colleges and Universities, the American Association of Community and Junior Colleges, the Association of Jesuit Colleges and Universities, the Council for the Advancement of Small Colleges, the Association of American Universities, and the executive directors of the National Association of State Universities and Land Grant Colleges, the College and University Department of the National Catholic Education Association, the American Association of State Colleges and Universities and the National Association for Equal Opportunity in Higher Education sent the following communication to all Members of the House of Representatives in support of H.R. 11274:

AMERICAN COUNCIL ON EDUCATION,
Washington, D.C., March 9, 1978.

To Members of the U.S. House of Representatives:

As representatives of the Nation's colleges and universities, we are writing to express our strong support for H.R. 11274, the Middle-Income Student Assistance Act of 1978, as voted out of the Committee on Education and Labor March 8.

This bill, sponsored by Congressmen Ford, Perkins, Thompson, Brademas, Quie, Buchanan, and others, would expand existing student aid programs to provide substantial assistance for students from families in the $15,000 to $25,000 income range, at a maximum additional cost of $1.5 billion.

H.R. 11274 is consistent with the approach recommended by President Carter as the most equitable way to help hard-pressed, middle-income families meet the costs of college. The help it provides would be based on actual need. There is strong consensus in the higher education community for the priority of this approach. We urge your support for passage of H.R. 11274, and for expanded appropriations to carry out its purposes.

J. W. Peltason, President, American Council on Education; Edmund J. Gleazer, Jr., President, American Association of Community and Junior Colleges; Allan W. Ostar, Executive Director, American Association of State Colleges and Universities; Rev. William C. McInnes, S.J., President, Association of Jesuit Colleges and Universities; John D. Phillips, President, National Association of Independent Colleges and Universities; Msgr. John F. Murphy, Executive Secretary, College and University Department, National Catholic Educational Association; Thomas A. Bartlett, President, Association of American Universities; Gary H. Quehl, President, Council for the Advancement of Small Colleges; Ralph K. Huitt, Executive Director, National Association of State Universities and Land-

Grant Colleges; Samuel L. Myers, Executive Director, National Association for Equal Opportunity in Higher Education.

Mr. Joel Packer, legislative director of the National Student Association/National Student Lobby Coalition, sent the following letter to Chairman Ford in support of H.R. 11274:

NATIONAL STUDENT LOBBY,
NATIONAL STUDENT ASSOCIATION,
Washington, D.C., March 9, 1978.

Hon. WILLIAM FORD,
Chairperson, House Postsecondary Education Subcommittee,
Room 2368 RHOB
Washington, D.C.

DEAR MR. FORD: On behalf of the National Student Association (NSA)/National Student Lobby (NSL) Coalition, I want to reaffirm our support for the Middle Income Student Assistance Act, H.R. 11274, as reported from the Education and Labor Committee. The bill, as amended by your subcommittee, and the full committee, contains a good mix of programs, to not only provide eligibility for middle-income students, but also larger awards for those from lower-incomes. We are particularly pleased that the changes made in the Basic Grant program keep awards proportional to family income. Increased funding for the Supplemental Educational Opportunity Grants Program, and College Work-Study, will be particularly helpful in providing flexibility in providing aid to those who might not qualify for Basic Grants, or who might need additional aid.

Two other provisions of the bill are particularly important to us. The first changes the treatment of financially independent students, especially those with their own dependents, in the Basic Grants program. This change will expand eligibility above the current absurdly low levels. The second, ensures that low-income students will not be adversely affected by the addition of large numbers of newly eligible students.

As we have stated many times in the past, an expansion of student aid programs, such as that in H.R. 11274, is a far more efficient, effective, and equitable method of providing additional Federal funding to middle-income, as well as to lower-income students, than a tuition tax credit.

Once again let me thank you and the others who have put a lot of hard work into this legislation. If NSA/NSL can be of further assistance, please feel free to contact me. I hope that we can see quick passage of H.R. 11274 in the House!

Sincerely,

JOEL PACKER,
Legislative Director.

In addition, the Middle-Income Student Assistance Act is supported by the American Federation of Teachers, the National Education Association, the AFL–CIO, the United Auto Workers, the American Bankers Association and the National Association of Student Financial Aid Administrators.

Hearings and Committee Action

H.R. 10854, the Middle Income Student Assistance Act, was proposed by President Carter and introduced in the House by the chairman of the Subcommittee on Postsecondary Education (Mr. William D. Ford) on February 8, 1978. Twenty-six members joined as cosponsors of H.R. 10854 and an identical bill, H.R. 10855. Subsequently, two further identical bills were introduced on February 21 (H.R. 11015) and on February 28 (H.R. 11200) with 28 additional cosponsors. A total of 54 Members of the House cosponsored these bills.

On February 9, a joint hearing of the House Committee on Education and Labor and the Senate Committee on Human Resources was held to receive administration testimony. The same day, the Subcommittee on Postsecondary Education held a further hearing during which representatives of postsecondary education institutions testified. Additional hearings were held by the subcommittee on February 16, 22, and 23. Witnesses included representatives of State postsecondary education agencies, student groups, student aid administrators, postsecondary education research institutions, the banking community, as well as administration officials and Members of Congress.

The subcommittee considered H.R. 10854 in legislative session on February 28 and reported the bill with amendments to the full committee by a unanimous recorded vote. H.R. 11274, a clean bill reflecting the action of the subcommittee, was introduced on March 3, 1978.

On March 8, the full Education and Labor Committee met and by a record vote of 32 to 3 ordered H.R. 11274 reported to the House with an amendment in the nature of a substitute. The explanatory language in this report, including the section-by-section analysis and comparison to existing law, relate to the text of the committee amendment.

The Programs

Basic Educational Opportunity Grants

The basic educational opportunity grant program, which provides grants to financially needy undergraduate students, was created by the Educational Amendments of 1972. The maximum grant which was initially set at $1,400 was increased to $1,800 by the Education Amendments of 1976.

The amount of a grant to any individual student is determined by subtracting the expected family contribution (in the case of a dependent student) from the maximum grant of $1,800. The expected family contribution is determined by applying an assessment rate against discretionary family income and family assets. Under current law the first $5,000 of discretionary income is assessed at a rate of 20 percent and discretionary income in excess of $5,000 is assessed at a rate of 30 percent. For the academic year 1978–79, families of dependent students will be given an asset exemption of $17,000 for nonfarm and nonbusiness assets and $50,000 for farms and business assets. Assets in excess of these amounts are assessed at a rate of 5 percent in determining the expected family contribution.

Since its inception, the program has enjoyed spectacular growth, and it is now the cornerstone of a balanced Federal program to

provide access to postsecondary education for needy students. In academic year 1976–77, 1,411,000 students received basic grants. The average grant was $820. It is estimated that in the academic year 1979–80 the existing program would provide grants to 2,193,000 students. The average grant would be $944.

It was apparent to the committee that the existing program, while providing significant benefits to students from low-income families, did not effectively reach needy students from hard-pressed middle-income families. For example, a student from an average family of four with one in college would not receive a basic grant if the gross family income was in excess of $15,167.

The committee also determined that the method in which the expected family contribution is calculated produces an unrealistically high expectation of what families are actually able to contribute. Dr. Paul Reiss, executive vice president of Fordham University, testified that Fordham University serves students predominantly "from urban working class and middle-income families" which would typically have a family income of about $18,000. Yet, Dr. Reiss noted, "about three-quarters of the students who drop [out] do so because they cannot come up with the funds necessary to continue—perhaps the most significant development in the financial aid picture today is the increasing appeals for help which we are receiving from students whose families are in the middle-income group. It is clear to us that many families not now being assisted through BEOG's are in desperate need for help; yet we have not been able to meet their need."

To address these concerns the administration proposed major changes in the basic grant program which were embodied in H.R. 10854 as introduced. The administration's proposal would have retained the 20 percent assessment of the first $5,000 of the discretionary income and 30 percent of the discretionary income in excess of $5,000. H.R. 10854 increased by $750 the family-size offset for the average family of four. The family-size offset is presently a major component in the calculation of discretionary family income.

In addition, the administration proposed that all students from families with incomes of $25,000 or less be guaranteed a minimum grant of $250. The primary effect of the minimum grant guarantee would have been to provide a $250 grant to students from families in the income range $16,000 to $25,000.

Witnesses who testified before the subcommittee were almost unanimous in their praise for revision of the basic grant program to reach more middle-income students. For example, Dr. Andrew Billingsley, president of Morgan State University, speaking on behalf of the National Association for Equal Opportunity in Higher Education, said, our association enthusiastically endorses the expansion of the BEOG program to meet the needs of students from middle-income families."

The witnesses appearing before the subcommittee were almost equally unanimous in criticizing the "flat" $250 basic grant to students from families with incomes between $16,000 and $25,000. For example, Joel Packer, legislative director of the National Student Lobby, remarked "This type of change detracts from the need-based nature of the program." In addition to reinforcing this concern, other witnesses

pointed to the equity and administrative problems the $250 guaranteed grant would create in situations of less than full funding and for part-time and independent students.

The Formula.—In response to the analysis and data presented in the hearings, the administration's proposal was modified by the committee. H.R. 11274, as reported by the committee, mandates that available appropriations shall first be used to provide for a 12-percent rate of assessment of discretionary family income. If additional appropriations are provided, the bill provides for a 10.5-percent rate of assessment of discretionary family income. The impact of these changes can be seen in the following table and graph.

Total program costs—Basic grant (1979–80)

	Billion
Current program	$2.18
H.R. 10854, administration proposal	3.167
H.R. 11274, 10.5-percent income proposal	3.459
H.R. 11274, 12-percent income assessment	3.195

Source: Department of Health, Education and Welfare.

BASIC GRANT AWARDS FOR STANDARD FAMILY OF 4 AT DIFFERENT INCOME LEVELS (1979–80)

			H.R. 11274	
	Current program	H.R. 10854 (administration proposal)	10.5 percent income assessment	12 percent income assessment
Family income:				
$6,000	$1,800	$1,800	$1,800	$1,800
$8,000	1,562	1,713	1,676	1,658
$10,000	1,227	1,378	1,500	1,457
$12,000	902	1,053	1,329	1,262
$14,000	462	690	1,158	1,066
$16,000	0	250	991	875
$18,000	0	250	827	688
$20,000	0	250	669	507
$22,000	0	250	511	327
$24,000	0	250	359	0
$26,000	0	0	208	0
$28,000	0	0	0	0

NOTES

Standard family: Family of 4 with 1 child in postsecondary education, assets covered by exemptions, no unusual expenses, postsecondary education costs of $3,600.

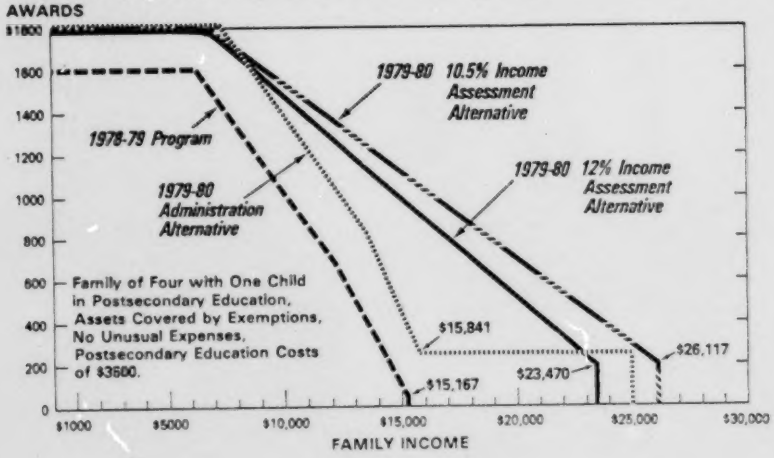
Current program: 20 percent of 1st $5,000 of discretionary income and 30 percent of any amount in excess considered as contribution toward postsecondary education costs; family size offset for standard family is $6,700, maximum grant of $1,800, minimum grant of $200.

Administration proposal: 20 percent of 1st $5,000 of discretionary income and 30 percent of any amount in excess considered as contribution toward postsecondary education costs, family size offset for standard family is $7,450, maximum grant of $1,800, minimum grant of $250 guaranteed to all students from families with income of $25,000 or less.

10.5 percent income assessment alternative: 10.5 percent of discretionary income considered as contribution toward postsecondary education costs, family size offset for standard family is $6,700, maximum grant of $1,800, minimum grant of $200.

12 percent income assessment alternative: 12 percent of discretionary income considered as contribution toward postsecondary education costs, family size offset for standard family is $6,700, maximum grant of $1,800, minimum grant of $200.

BASIC EDUCATIONAL OPPORTUNITY GRANTS
Awards for a Family of Four at Different Income Levels



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The 10.5-percent income assessment rate will bring approximately 1½ million additional students into the program. A student from the average family of four with an income of $26,117 will qualify for a grant. The cost of fully funding a 10.5-percent income assessment rate is approximately $1.3 billion (in excess of the cost of fully funding the current program).

The 12-percent income assessment rate will bring approximately 1¼ million additional students into the program. A student from the average family of four with an income of $23,470 will qualify for a grant. The cost of fully funding a 12-percent income assessment rate is approximately $1 billion (in excess of the cost of fully funding the current program). It should be noted that the total basic grant program cost for the 12-percent income assessment rate in H.R. 11274 is almost identical to the total program cost of the administration's proposal, H.R. 10854.

It is also apparent from the table and graph above that H.R. 11274, as reported by the committee, is a much more effective and equitable way of reaching students from families with incomes above $16,000 than either the current program or the administration's proposal.

H.R. 11274 also revises the formula reducing basic grant awards to students if appropriations are insufficient to fully fund the program.

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When appropriations are less than needed for full funding of the program using the 12-percent assessment rate, the formula, as amended, affects the amount of grants as follows:

(I) the full amount of any entitlement exceeding $1,600;

(II) 90 percent of any entitlement exceeding $1,200 but not exceeding $1,600;

(III) 75 percent of any entitlement exceeding $1,000 but not exceeding $1,200;

(IV) 70 percent of any entitlement exceeding $800 but not exceeding $1,000;

(V) 65 percent of any entitlement exceeding $600 but not exceeding $800; and

(VI) 50 percent of any entitlement not exceeding $600.

Current law contains the following reduction formula for paying basic grant entitlements in the event of less than full funding:

(I) 75 percent of any entitlement exceeding $1,000;

(II) 70 percent of any entitlement exceeding $800 but not exceeding $1,000;

(III) 65 percent of any entitlement exceeding $600 but not exceeding $800; and

(IV) 50 percent of any entitlement not exceeding $600.

As revised, the formula provides the greatest protection for the grants of the lowest income students.

It is the understanding of the committee that, in determining the basic grant award of a student in situations of less than full funding, the current practice of the Office of Education is: First, to apply the schedule of grant reductions (section 411(b)(3)(B)), and second, to apply the "half-cost" rule (section 411(a)(2)(B)(i)). This practice is consistent with the intent of the committee that the grants of students eligible for the largest grants—that is, the lowest income students—be the most protected in cases of inadequate appropriations. The committee expects that this practice will continue in the implementation of the modified formula.

Independent Students.—The Middle Income Student Assistance Act, as proposed by the administration and as reported by the committee, redresses several long-standing inequities in the treatment of independent students under the basic grant program. The bill protects from assessment the assets of independent students with dependents in the same manner as the assets of the families of dependent students are protected. Further, the bill requires that the unexempted assets of independent students with dependents be assessed at the same rate as the unexempted assets of the families of dependent students are assessed. Finally, the bill provides that the amount of a single independent student's income that is exempted for subsistence costs be calculated in the same manner as it is calculated for all other students. Income thus exempted may not be considered as a contribution toward education costs. The cost of these changes are included in the total program costs as reflected in the chart above.

Guaranteed student loan program

The guaranteed student loan program has been for more than a decade the primary source of Federal student financial assistance to

students from middle-income families. During the 1976–77 school year, 23.8 percent of the students receiving aid under the guaranteed student loan program were from families with incomes of $15,000 or more. Comparable statistics for students in this category indicate a 3.3 percent participation rate in the BEOG program; 6.6 percent in the SEOG program; 11.5 percent in the CWSP program; and 14.5 percent in the NDSL program for the same period.

The primary purpose of GSLP is to make low-interest loans available to students to help them meet their educational expenses. Loans are guaranteed by either individual State agencies (reinsured by the Federal Government) or by the U.S. Office of Education.

When the Congress established the GSLP in 1965, students from families with adjusted family incomes of $15,000 or less were made eligible for a student loan interest subsidy. The Education Amendments of 1976 increased the eligibility ceiling to $25,000. Under the subsidy provision, the Federal Government pays the interest on a guaranteed student loan for an eligible student while he or she is enrolled in a postsecondary institution. This interest subsidy relieves the financial burden on students and their families during the time the student is attending college.

Eligibility for the subsidy has become a major factor in determining whether or not a student can obtain a loan. Referring to middle-income students, Mr. Lawrence Banyas, senior economic consultant to the American Bankers Association, told the committee that "in many cases these students need loans which lenders are unwilling to make unless they are subsidized by the Government during the in-school and grace periods." As a practical matter, many lenders will not make unsubsidized loans with the result that middle-income students are denied access to the program.

President Carter, in his original proposal, recommended increasing the family income ceiling for eligibility for a subsidy from $25,000 to $40,000. Secretary of Health, Education, and Welfare Joseph A. Califano, Jr., testified that this change in eligibility, along with other changes, would make participation in the program more attractive to lending institutions and would support an estimated 260,000 new loans to students with family incomes in excess of $16,000.

The committee enthusiastically received the President's recommendations and adopted two administration proposals to make the program more attractive to lending institutions. However, instead of raising the income eligibility level for the interest subsidy from $25,000 to $40,000, the committee removed the ceiling entirely.

Approximately 98 percent of the student population would be eligible for the interest subsidy if the eligibility ceiling were set at $40,000. The committee concluded that continuing to require a needs test analysis for all loan applicants in order to determine the 2 percent of the population ineligible for interest subsidies would not be worth the added administrative costs and paperwork. By eliminating the income eligibility ceiling entirely, educational institutions will be relieved of the paperwork in making a needs analysis and recommendation, the loan application form will be greatly simplified, the need analysis form will be eliminated, and lenders can simplify adminis-

tration of these loans since they will not have to provide dual procedures for subsidized and unsubsidized loans. The committee estimates that the number of families with adjusted family incomes in excess of $40,000 who would actually apply for a guaranteed loan would be relatively small.

In addition to removing the eligibility ceiling from the interest payment subsidy, the committee adopted two other provisions recommended by the Administration to encourage broader lender participation and increase loan availability. These two changes as technically perfected by the committee would (1) raise the special allowance by one-half percent during the repayment period of each loan and (2) provide a minimum special allowance floor of 1 percent per year regardless of market conditions.

The special allowance is an additional interest payment which is paid to lenders by the U.S. Commissioner of Education. It is computed quarterly and is determined by the bond equivalent rates of 91-day Treasury notes. Its purpose is to insure an equitable return to lending institutions which participate in the GSLP program.

These changes were endorsed in testimony before the committee by the spokesman for the American Bankers Association who reminded the committee that both provisions are "based squarely on the recommendations of the Committee on the Process of Determining Student Loan Special Allowances established specifically for that purpose by Public Law 94–482, enacted in 1976."

In addition the committee adopted the following amendments to the guaranteed student loan program:

A technical amendment revising the date used to distinguish between old and new State guarantee agencies to avoid penalizing those agencies established between the date of enactment of the Education Amendments of 1976 and the effective date of certain provisions relating to such agencies;

An amendment authorizing, with respect to disabled students enrolled in qualified rehabilitation programs, the same options for deferring repayment as is offered to students enrolled in qualified graduate fellowship programs. In addition to promoting fair treatment of such disabled students this amendment should reduce the likelihood of disability discharges of loans under the program; and

An amendment is made to permit the Student Loan Marketing Association to make warehousing advances of 100 percent instead of the current 82 percent.

Supplemental educational opportunity grants

The supplemental educational opportunity grant program is a "campus based" or institutionally-administered grant program which provides supplemental grants to assist qualified undergraduate students who, for lack of financial means, would be unable to attend the post-secondary school of their choice. While in the past SEOG's have primarily benefited lower income students, the growth of the BEOG program has resulted in a shift of more and more SEOG grants to students from middle-income families.

During the 1974–75 school year, 5.3 percent of SEOG recipients were from families with incomes in excess of $12,000. Two years later,

during the 1976–77 school year 18.6 percent of the SEOG benefits were awarded to undergraduate students from families with incomes in excess of $12,000.

Students, policy analysts, and representatives of institutions testifying before the committee all expressed support for the SEOG program and urged the committee to increase funding for the program. Perhaps the most persuasive testimony was delivered by William G. Bowen, president of Princeton University and chairman of the Board of Directors of the American Council of Education. President Bowen said:

> It is vital to increase grant aid through the supplemental educational opportunity grant program, as well as through basic grants. SEOG's are an essential supplement to BEOG's, particularly for students attending higher priced institutions that are both public and private.
>
> The BEOG program with its standardized national need criteria provides an important foundation of assistance for all students. The campus-based SEOG program complements the BEOG program by providing flexible assistance to students from middle-income families who may qualify for a basic grant that is very small in relation to the costs they have to bear, or who may fail to qualify for even the minimal basic grant * * *. I think the student aid program as a whole will address these concerns much more effectively if it includes a significant increase in SEOG funds.
>
> An increased SEOG appropriation is needed to assure low- and middle-income students of a realistic option of attending a higher priced institution. This should be seen as an important national objective, I would argue, not just because we want each individual student to have a real opportunity to develop his or her talents to the fullest in the institution that seems right for him or her, but also because the learning environment at all of our institutions will be a much better one if it is possible for individuals from different economic backgrounds to learn together. A truly democratic society cannot afford to have institutions of higher education stratified by economic circumstances. Nor can we afford, as a society to lose the values of pluralism and diversity represented by a system of higher education that includes both public and private institutions of many kinds.
>
> The existing level of SEOG funding is clearly insufficient. In academic year 1979–80, with an $1,800 maximum BEOG grant, the average BEOG of $987 will meet only 27 percent of student expenses averaging $3,700 at all institutions. The unmet need at many private and public institutions is obviously far greater, and institutions must often help students by supplementing the BEOG support out of their own limited funds. But institutional resources are already overextended. State student aid is unevenly distributed, and students attending college outside of their home States are usually not eligible for State aid.
>
> To help make up the difference between the cost of attendance and the basic grant for low- and middle-income stu-

> dents, and to provide some grant assistance to those with incomes just above BEOG eligibility attending more costly institutions, SEOG's should be increased substantially over the fiscal year 1978 level of $270 million. The ACE has estimated that an increase of $100 million, for example, would provide grants to an additional 182,000 students from middle-income families. Even if it requires adjustments in other parts of the program, I would urge the subcommittee to increase the funding for SEOG's by at least this amount for fiscal year 1979. I note with enthusiastic support that the bill as introduced by Chairman Ford would mandate an increase to $450 million for SEOG's in fiscal year 1980.

Dallas Martin, Executive Secretary of the National Association of Student Financial Aid Administrators, stated in his testimony:

> While there is no doubt that these funds are needed as evidenced by the institutional requests from previous years, there is also a tremendous need for increased funding in the SEOG program. The SEOG program has long been recognized as one of the most effective programs to provide low- and middle-income students a choice of the type of post-secondary educational institutions they will attend. However, without additional funding for fiscal year 1979, this choice will be minimized for many of these students.

Under the President's proposal, no increase in funding was recommended for the supplemental educational opportunity grant program. However, a $150 million increase in the minimum funding level was recommended for the college work-study program, another campus-based student assistance program. In light of the strong and persuasive testimony in favor of increasing SEOG funding, the committee has adopted an amendment which redistributes the $150 million originally proposed for the college work-study program.

The committee amendment revises the minimum funding levels for the SEOG program as well as the work-study program to provide for each a $70 million increase above the Administration's initial fiscal year 1979 budget request. The remaining $10 million is to be used to increase the funding of the State student incentive grant program. This can be accomplished under the current authorization and, accordingly, it is the committee's expectation that the administration will make an appropriate appropriations request.

The legislation further requires that the funding level for SEOG in fiscal year 1980 be increased by an additional $110 million over the $340 million required for fiscal 1979.

State student incentive grants

The State Student Incentive Grant (SSIG) program provides Federal funds to States for the purpose of matching State expenditures for State need-based student grant programs. In the first academic year of the program (1973–74), 31 States provided $364.2 million in grants. In the last academic year (1977–78), more than $750 million was appropriated by the States for programs eligible for SSIG matching. This growth in State contributions can be attributed, in large measure, to the dollar for dollar match provided to States by the Federal Government.

These State grants assisted more than 1 million students, many of whom are from middle-income families, particularly those attending higher cost independent colleges and universities.

Several witnesses testifying before the subcommittee urged that consideration be given to increasing the funding for the SSIG program since it generates additional State matching money and provides substantial assistance to students from middle-income families.

In response to the testimony and as noted above in the discussion of the SEOG program, the committee divided the $150 million recommended by the administration for the college work study program, allocating $70 million for college work study and $70 million for the SEOG program, with the remaining $10 million reserved for the SSIG program. Thus, the committee expects that the administration will request $87 million for the SSIG program in fiscal year 1979.

Presently 35 of the 53 States and territories participating in the program are overmatching the Federal contribution to the SSIG. Therefore, there is no additional Federal incentive for these States to expand their contributions. In response to a recommendation by the National Association of State Scholarship and Grant Programs, the committee amended the present law to provide for a two-tiered system for allocating SSIG money.

This change would establish a new base year for allocation of the second tier money (over $75 million) as determined by the increase in State contribution, and thus would provide new incentives for States to increase their funding of student grant programs.

The committee received testimony indicating that, under the present law, a $40 million increase in Federal funding from the current level of $60 million would result in only $6 million from the States to meet the minimum matching requirements. Under a two-tiered approach, the additional $40 million would create an additional $22 million in State funding. The committee recognizes that, at the requested authorization level, the new tier would not have an immediate expansionary effect on State contributions, but believes that, as Federal appropriations increase, the State programs will expand significantly.

College work study program

The college work-study program is a "campus based" program designed to provide part-time employment for needy students who need to earn money to pay for their postsecondary education. It is often part of a student financial aid package which includes other forms of assistance such as grants and loans. In many cases the CWS program provides needy students with an opportunity to earn part of their education expenses and to avoid incurring undue indebtedness.

This program has assisted a large number of middle-income students in recent years. In academic year 1976–77, 28 percent of college work study funds went to students from families with incomes in excess of $12,000. Another 20.5 percent went to independent undergraduate students and 5 percent went to graduate students.

In its proposal, the administration recommended an increase in funding for the college work study program. The recommended increase was $150 million over the President's original fiscal year 1979 budget request of $450 million (up $15 million from the 1978 level of $435 million).

In endorsing increased funding for work study, the National Association of Student Financial Aid Administrators noted that the recently enacted minimum wage increases would require additional funds. A further endorsement was received from the president of Enterprise State Junior College in Alabama, Dr. B. A. Forrester, who encouraged a "trend from the grant to work study."

In his testimony supporting a better balance of funds among the campus-based programs, Haskell Rhett, president of the National Association of State Scholarship and Grant Programs, suggested that some institutions might experience administrative difficulty with a massive infusion of additional work study funds all in 1 year. He also recommended, as other witnesses did, that the funds proposed by the administration be distributed among the other campus-based programs as well.

In light of the substantial testimony supporting increased funding of work study as well as other institutionally administered programs and the desire to stay within the administration's $150 million recommendation for these types of programs, the committee bill mandates a distribution of the funds in the following manner: In fiscal year 1979, H.R. 11274 distributes $70 million to college work study and $70 million to supplemental educational opportunity grants by raising the minimum funding levels. The committee expects that the remaining $10 million contained in the original proposal will be allocated to the State student incentive grant program.

The legislation further requires that the funding level for the college work study program in fiscal year 1980 be increased by an additional $60 million.

Miscellaneous Amendments

TRIO—Veterans eligibility

Regulations currently governing the veterans Upward Bound program, one of the TRIO programs, define an eligible veteran as one who meets all other eligibility criteria and is aged 14 through 27. Other criteria require that participants be from low-income backgrounds. Because the average age of Vietnam-era veterans is now 32, this legislation contains a provision to waive the age requirement for otherwise eligible veterans to participate in the program. The provision in no way alters any other eligibilty criteria.

Veterans cost of instruction program

The veterans cost of instruction program provides payments to eligible institutions to support a wide range of educational and personal services to enrolled veterans. From the time the Vietnam-era amendments to the GI bill went into effect on June 1, 1966, until April 1976, there had been a continuing increase in the number of persons receiving educational benefits in successive school enrollment periods. This permitted educational institutions to meet the enrollment levels that the law required.

With the arrival of the 10-year delimiting date on May 31, 1976, the number of veterans eligible for benefits began to decrease, and

from April 1976 to April 1977 the number of veterans in training had decreased by 34 percent. This reduction in the number of undergraduate veterans receiving education payments, caused by delimiting factors, will make it impossible for a large number of institutions participating in the VCIP program to maintain the enrollments required by the law.

The committee has received preliminary estimates indicating that the number of participating VCIP institutions would decline dramatically due to the inability to meet the requirement that the number of veterans enrolled at the institution be at the preceding year's level.

Because of the impossibility of determining the impact of an adjustment in the "discount" formula in section 420(a)(3), the committee agreed to meet this emergency situation by adopting a provision designed to put currently eligible institutions in a "hold harmless" position as long as there is no evidence to indicate that the veterans' services currently provided by those institutions to meet the requirements of section 420(c)(1)(B) or the institutions' efforts to enroll eligible veterans are declining.

Postsecondary proprietary institutions

The 1976 Education Amendments broadened the definition of an institution of higher education for the purposes of student aid eligibility to include public or private nonprofit institutions that admit as regular students those beyond the age of compulsory school attendance in the State in which the institution is located. In explanation of this provision, the statement of the managers in the conference report on the 1976 act emphasized "that this amendment will not terminate the eligibility for Federal assistance of any institution that was eligible under previous law."

Despite the managers' statement there has been considerable confusion concerning the continued eligibility of students enrolled in proprietary institutions. As a technical matter, section 491 of the Higher Education Act, which defines "eligible institutions" for the purposes of participating in title IV (student assistance) programs, requires proprietary institutions to admit, as regular students, only individuals with certificates of graduation from secondary schools or the equivalent. Public and nonprofit private institutions by virtue of the Education Amendments of 1976 are exempted from that requirement.

Section 7 of H.R. 11274 amends section 491 to provide proprietary schools with the same exemption as is provided public and nonprofit private institutions. The committee intends that proprietary institutions be treated in the same manner as public and nonprofit private institutions. In recent years, it has been the case that private nonprofit institutions and proprietary institutions have been covered by the same operating definition of institution of higher education. As emphasized by the managers on the 1976 Education Act, there was no intention to provide for separate treatment, and this amendment accordingly brings the issue clearly within what was originally intended by the 1976 action. The committee wishes to emphasize that

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this clarifying amendment does not and should not in any way create any question or doubt as to the eligibility of any institution participating in student aid programs prior to the enactment of this legislation.

Elementary and secondary school tuition setaside

H.R. 11274 as reported by the committee requires that, in calculating a student's "need" for assistance under the college work-study and national direct student loan programs, the educational expenses of other dependent children in the family must be considered. This includes any expenditures made by a family for tuition payments to private elementary and Secondary schools. This factor is now taken into account in calculating "need" for both the basic educational opportunity grant and the supplemental educational opportunity grant programs.

In addition to further relieving financial pressures of families with high educational costs, these amendments bring greater uniformity to the administration of the four Federal student aid programs.

Technical amendment to section 1208

As presently written, section 1208 requires that if in fiscal year 1979 the appropriations for the basic educational opportunity grant program, the supplemental educational opportunity grant program, the college work-study program, and the national direct student loan program equal or exceed the greater of the sum of fiscal year 1978 of appropriations for these programs or $3.1 billion, no awards can be made for those programs unless the appropriations for title I (community service and continuing education programs), part C of title VII (construction and rennovation loans), and title X (establishment and expansion of community colleges) equal or exceed 50 percent of the excess. This provision is operative until the appropriation level for title I, part C of title VII and title X reaches $215 million.

The committee amendment lowers the funding requirement from $215 million to $50 million and provides that part C of title VII shall no longer be affected by section 1208.

It is the committee's expectation that the changes reflected in this amendment will make it less difficult to comply with section 1208 in fiscal year 1979.

Inflationary Impact

The Rules of the House require that each committee report contain a statement of the legislation's "inflationary impact on prices and costs in the operation of the national economy."

The new authorizations contained in H.R. 11274 are considered by the committee to be an investment which will improve and enhance the educational opportunities of our citizens. This expansion of student aid to middle-income families and improvement of assistance to lower income students will have a negligible inflationary impact particularly when compared to the impact of the various tuition tax credit proposals being considered.

The new "authority," as shown in the cost estimate, is $1.560 billion for fiscal year 1979, if fully funded. This figure represents .3118 percent of the President's total fiscal year 1979 budget request and its impact on the operation of the economy will be minimal.

Oversight

The Subcommittee on Postsecondary Education held a number of oversight hearings during the 1st session of the 95th Congress which served as background for the development of this legislation. Extensive oversight hearings were held on all forms of Federal student financial assistance. The guaranteed student loan program was discussed at length during an oversight hearing on student loan defaults. During hearings on the proposed family contributions schedule for the basic educational opportunity grant program for academic year 1978–79, the basic grant program was reviewed with emphasis on the independent student as well as discussion of the eligibility of students enrolled in proprietary schools.

No findings or recommendations concerning oversight of provisions contained in H.R. 11274 have been received by the committee from the Committee on Government Operations.

Cost Estimates

The committee, relying on data supplied by the Department of Health, Education, and Welfare, estimates the cost of the changes in the basic grant program to be $1 billion at the 12 percent income assessment rate and $1.2 billion at the 10.5 percent income assessment rate. The cost estimate provided by the Congressional Budget Office differs somewhat from the committee's estimate because of different definitions of what constitutes "current policy," different estimates of projected student participation in the program, and different economic projections. The committee concurs in the estimates of the Congressional Budget Office for authorization levels and projected costs for the changes proposed to the guaranteed student loan program for fiscal year 1979 and for the subsequent four fiscal years.

The Congressional Budget Office, having reviewed the bill, H.R. 11274, has provided the following cost estimate.

Congressional Budget Office,
U.S. Congress,
Washington, D.C., March 10, 1978.

Hon. Carl D. Perkins,
Chairman, Committee on Education and Labor, U.S. House of Representatives, Washington, D.C.

Dear Mr. Chairman: Pursuant to section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for H.R. 11274, the Middle Income Student Assistance Act.

Should the committee so desire, we would be pleased to provide further details on the attached cost estimate.

Sincerely,

Alice M. Rivlin, *Director.*

Congressional Budget Office—Cost Estimate

1. Bill number: H.R. 11274.
2. Bill title: Middle Income Student Assistance Act.

3. Bill status: As ordered reported from the House Education and Labor Committee, March 8, 1978.

4. Bill purpose: The purpose of this bill is to expand the basic educational opportunity grants program (BEOG), to extend the eligibility for guaranteed student loans (GSL) to all students regardless of family income, to increase the special allowance payments to GSL lending institutions, and for other purposes.

5. Cost estimate:

[By fiscal year; in millions of dollars]

	1979	1980	1981	1982	1983
Authorization levels:					
BEOG program	1,512				
GSL program	48	101	156	211	268
Total	1,560	101	156	211	268
Projected total cost:					
BEOG program	121	1,210	181		
GSL program	34	84	138	193	250
Total	155	1,294	319	193	250

Note: The costs of this bill fall within budget function 500.

6. Basis for estimate: CBO projects the total cost of the BEOGs program, including the provisions in H.R. 12274, to be $3.4 billion in budget authority, a $1.5 billion increase over current policy. The increase reflects several changes from current policy:

(1) Basic grants are fully funded at the $1,800 maximum level. Under current policy, basic grants are funded at a $1,600 maximum level.

(2) the asset reserve for nonfarm families is raised to $25,000, an increase of $8,000 over current policy.

(3) The cost estimate assumes full funding and, therefore, under the provisions of this bill the assessment rate on family disposable income is a flat 10½ percent. Current policy assumes a rate of 20 percent on the first $5,000 of disposable income and, for any amount above $5,000, 30 percent.

(4) The assessment rate for independent students on assets over $25,000 is changed from the current 33.3 percent to the 5 percent stated in the bill.

(5) The family allowance offset for independent students without dependents is changed from $1,100 to $2,400.

(6) Since the number of BEOG applicants will double, a corresponding increase of $24 million over current policy was assumed for administrative costs.

The spendout rate, which reflects the forward funded nature of the BEOG program is assumed to be 8 percent the first year, 80 percent the second and the remainder the third year.

H.R. 11274 contains a provision for increasing the assessment rate on family disposable income from 10½ percent to twelve percent if the BEOG program is not fully appropriated. Assuming all the other changes stated above, this altenative would cost $1.2 billion over current policy but $268 million below the full funding level for this bill.

The additional cost of $48 million in fiscal year 1979 for the GSL program reflects an increase of $33 million for new loans and $15 million in special allowance payments. The GSL estimates are based on the following assumptions:

A. NEW LOANS

(1) The 2.9 million newly eligible students would apply and obtain loans at the same rate as those in the present program.

(2) The new loans would average about $1,600 in fiscal year 1979 reflecting the fact that higher income students attend higher cost schools. The projected average loan in fiscal year 1979 under the current program would be $1,542.

(3) The new loan volume in fiscal year 1979 is assumed to be only two-thirds that of a full year due to the time lag in implementing the legislation and in the information flow to eligible students.

(4) Loans to the original eligible population could actually decline if lending institutions hold their portfolios constant and lend to the lower risk—higher income students. However, it is not yet known how lending institutions will in fact respond to the new provisions. Therefore, no additional changes were assumed to occur in the existing program as a result of this legislation.

(5) New loans are projected to grow at the same rate as higher education enrollments increase over the next 5 years.

Projected total costs reflect the one quarter lag in Federal payments made to the lending institutions.

B. SPECIAL ALLOWANCES

The increase in cost for the special allowances paid to lending institutions reflects a 0.5 percent increase in the rate paid on all loans in repayment. The estimate for the number of loans projected to be in repayment was obtained from the Department of HEW.

No additional cost is associated with the sections of the bill increasing the work/study, the supplemental educational opportunity grants (SEOG), or construction loan limitations on the BEOG appropriations. These limitation provisions make payments under the BEOGs program subject to a floor on appropriation levels for work/study, SEOG's, and construction loans, but do not actually increase existing authorization levels for those programs. However, if the Appropriations Committee funds the BEOG program in fiscal year 1979 at the levels implied in this bill, then an increase of $94 million over current policy would be necessary to cover the SEOG and work/study limiting provisions.

The authorization for basic grants expires in September 1979. Since this bill does not extend authorization for the program, the impact of this bill is only for fiscal year 1979.

7. Estimate comparison: On February 27, 1978, CBO completed a cost estimate on S. 2539 the College Opportunity Act of 1978. The Senate bill is basically the same as H.R. 11274. However, S. 2539 did not change the current treatment of independent student assets and family allowance offsets and did not include an increase in the GSL special allowance.

8. Previous CBO estimate: None.
9. Estimate prepared by: Deborah Kalcevic.
10. Estimate approved by:

JAMES L. BLUM,
Assistant Director for Budget Analysis.

SECTION-BY-SECTION DESCRIPTION OF THE BILL

Section 2(a)(1) of the bill amends section 411(a)(3)(B) of the Higher Education Act of 1965, as amended, to provide that, beginning after academic year 1978–79, the percentage of parental discretionary income which can be calculated in the basic educational opportunity grant program as a contribution to meet postsecondary education costs cannot exceed 10.5 percent. If the funds available for the program in any academic year after 1978–79 are not sufficient to meet fully all entitlements under a 10.5 percent rate, the rate will be increased to 12 percent.

The basic educational opportunity grant program provides financial assistance to students who qualify for aid under its need analysis system. Though a series of calculations the need analysis system determines, for each applicant, the amount of family income which is considered discretionary—that is, available for spending on other than subsistence. Program regulations for academic year 1977–78 require that 20 percent of the first $5,000 of discretionary income be considered as applicable toward college expenses, and 30 percent of any additional discretionary income also be so considered. Final regulations for academic year 1978–79 continue this same treatment of discretionary income.

Section 2(a)(2) amends section 411(b)(3)(B)(i) of the Higher Education Act to make the reduction procedure for basic educational opportunity grants described therein effective only when the 12 percent assessment rate is applied to parental discretionary income. (See sec. 2(a)(1) above.)

Currently section 411(b)(3)(B)(i) specifies how the payment for each basic grant entitlement is to be reduced when the program is not fully funded. The amendment specifies that the reduction procedure will be implemented only when the parental discretionary income assessment rate has been set at 12 percent, and funding is not sufficient to meet all entitlements at that rate.

Section 2(b) amends section 411(a)(3)(C) of the Higher Education Act to require that, in determining the amount which an independent student with dependents can be expected to contribute toward education costs from his or her assets, program regulations must provide such student the same asset exemption as is provided to a family of a dependent student. No portion of assets so exempted can be considered as contribution toward education costs.

Regulations for academic year 1977–78 exempt no assets for independent students. Families of dependent students are given asset exemption of $12,500 for nonfarm and nonbusiness assets, and $25,000 for farm and business assets. Regulations for academic year 1978–79 continue this treatment of the assets of independent students, but increase the asset exemptions for families of dependent students to $17,000/$50,000.

Section 411(a)(3)(C) is amended further to require that program regulations will expect the same portion of unexempted assets to be contributed toward education costs by independent students with dependents as is expected to be contributed by families of dependent students.

In the current academic year, program regulations require that 5 percent of unexempted assets of dependent students' families be considered as contribution toward education costs. The assessment rate of the assets of independent students is 33 percent. Regulations for academic year 1978–79 continue this treatment of assets.

Section 411(a)(3)(C) of the Higher Education Act is also amended to provide that the amount which is exempted for subsistence costs from the income of single independent students be calculated under program regulations in the same manner as those amounts are calculated for all other students. No portion of this exempted income can be considered as contribution toward education costs.

Program regulations for the current academic year and for academic year 1978–79 calculate the subsistence exemptions (known as family size offsets) for all applicants, except single independent students, using the weighted average thresholds at the low-income level developed by the Social Security Administration. Independent students with no dependents are given a subsistence exemption based on an estimate of the needs of a single independent student during the months of the year he or she is not enrolled in school.

Section 2(c) amends section 411(b)(3)(B)(i) of the Higher Education Act to modify the reduction procedure for basic educational opportunity grants. This procedure, as amended, would require that, in the event the funding for the program were not sufficient to satisfy all grant entitlements, the payments for such entitlements will be:

(I) the full amount of any entitlement exceeding $1,600;

(II) 90 percent of any entitlement exceeding $1,200 but not exceeding $1,600;

(III) 75 percent of any entitlement exceeding $1,000 but not exceeding $1,200;

(IV) 70 percent of any entitlement exceeding $800 but not exceeding $1,000;

(V) 65 percent of any entitlement exceeding $600 but not exceeding $800; and

(VI) 50 percent of any entitlement not exceeding $600.

(Section 2(a)(2), described above, affects when this reduction procedure would be implemented.)

Section 411(b)(3)(i) of the Higher Education Act at present establishes the following reduction procedure for paying basic grant entitlements in the event of less than full funding:

(I) 75 percent of any entitlement exceeding $1,000;

(II) 70 percent of any entitlement exceeding $800 but not exceeding $1,000;

(III) 65 percent of any entitlement exceeding $600 but not exceeding $800; and

(IV) 50 percent of any entitlement not exceeding $600.

Section 2(d) amends section 411(b)(5) of the Higher Education Act by raising from $130,093,000 to $340,093,000 the level at which the supplemental educational opportunity grant program must be funded before basic grants can be awarded; and by raising from $237,400,000 to $520 million the level at which the college work-study program must be funded before basic grants can be awarded.

Currently this section of the Higher Education Act establishes that, before any basic grants can be awarded, the campus-based aid programs authorized by Title IV of the Higher Education Act must be funded at the following levels:

Supplemental educational opportunity grant program	$130,093,000
College work-study program	237,400,000
National direct student loan program	280,000,000

Section 2(e) amends section 411(b) of the Higher Education Act to prohibit the payment of any basic grant entitlements during fiscal year 1980 if the campus-based student aid programs are not funded at the following levels:

Supplemental educational opportunity grant program	$450,000,000
College work-study program	600,000,000
National direct student loan program	286,000,000

Section 3 amends section 415(b)(5) of the Higher Education Act to provide that, under the State student incentive grant program, a State's matching funds for any Federal funding in excess of $75 million represent additional expenditures by that State over its expenditures for student grants in the second fiscal year preceding the fiscal year in which the State first received a portion of such excess funding. This matching requirement for the excess funding applies only in fiscal years following the first fiscal year in which there is such an excess.

Under current law, a State participating in the State student incentive grant program matches Federal funding on a one-to-one basis. The State funds used to meet that matching requirement must represent funds in excess of those expended for student grants by that State during the second fiscal year preceding the fiscal year in which the State originally received State student incentive grant funding. Thus, current law requires that, at a minimum, a State must maintain its expenditures for student grants at a level equal to its student grant expenditures of a fixed fiscal year (the second one before the State originally received State student incentive grant support) plus any amount needed to match State student incentive grant spending in the current year. The amendment stipulates that, in the second fiscal year in which Federal funding for this program exceeds $75 million, State matching funds for any funds coming from that excess must represent expenditures above those of the State for student grants in the second fiscal year preceding the year in which the State first received a portion of Federal funds in excess of $75 million.

In this determination of the amount of State student incentive grant funding in excess of $75 million, the amendment excludes any funds required for the purposes of section 415–E of the higher education; but State matching funds for the 33⅓ percent of the funds above $75 million affected by section 415–E would be governed by the current maintenance of effort provisions.

Section 4 amends section 417B(b) of the Higher Education Act to provide that there be no age limitation on the eligibility of veterans (as defined by section 1652(a) of title 38, United States Code) for any of the special programs for students from disadvantaged backgrounds authorized by title IV of the Higher Education Act.

Section 5 amends Section 420 (Veterans' Cost-of-Instruction Payments to Institutions of Higher Education) of the Higher Education Act to provide that, for any academic year beginning on or after July 1, 1978, and ending on or before September 30, 1980, an institution shall be eligible for funding if it was eligible the preceding academic year, and if the Commissioner of Education determines that the institution is making a good faith effort to enroll veterans in its programs.

This section of the Higher Education Act currently authorizes Federal funding of programs at institutions of higher education for veterans' support programs, such as counseling. An institution is eligible initially for funding if the number of veterans enrolled as undergraduates equals at least 110 percent of the number of veterans enrolled the preceding academic year, or the percent of its total number of undergraduates which are veterans is 10 percent (as long as that percentage is not less than it was the preceding academic year). A minimum of 25 veterans must attend an institution for it to be eligible. In subsequent years, to be eligible, that institution must either maintain its previous level of enrolled veterans, or the minimum level necessary to be eligible in the preceding academic year, whichever is less.

Section 6(a) amends section 422(c)(5) of the Higher Education Act to make States with guarantee agencies participating in the guaranteed student loan program eligible for reserve fund advances from the Federal Government for 5 years, instead of 3, if they entered into interest subsidy agreements with the Federal Government on or after the date upon which section 422(c)(5) was enacted (October 12, 1976).

Current law entitles States to 5 years of reserve fund advances (Federal funds lent to provide capital for guarantee agencies) if their programs are covered by interest subsidy agreements entered into on or after October 1, 1977.

Section 6(b)(1) amends section 427(a)(2)(C)(i) of the Higher Education Act to expand the reasons for which the deferral of the repayment of federally insured student loan principal is permitted to include participation in an approved rehabilitation training program.

Section 6(b)(2) amends section 428(b)(1)(M)(i) of the Higher Education Act to apply the expansion of the deferral provisions (see section 6(b)(1) above) to loans made under State guaranteed loan programs.

The present reasons for repayment deferral on loan principal authorized by sections 427(a)(2)(C)(i) and 428(b)(1)(M)(i) are:

full-time enrollment in a postsecondary education institution,
membership in the Armed Forces (deferral for up to 3 years),
service as a volunteer in the Peace Corps (deferral for up to 3 years),
service under the Domestic Volunteer Service Act (deferral for up to 3 years),
lack of full-time employment (deferral for a single year).

Section 6(c)(1) amends section 428(a)(2) of the Higher Education Act by redesignating subparagraph (C) as (B), striking subparagraph (D), and inserting, in lieu of the current subparagraphs (A) and (B), a new subparagraph (A) to provide that a student entitled to Federal interest subsidy payments on a guaranteed student loan has only to file with the lender a statement, from his or her institution of postsecondary education, listing the cost of attendance and the estimated financial assistance being provided to him or her. Qualified borrowers under the guaranteed student program are entitled, while they are in school, to have a portion of the interest on their loans paid by the Federal Government in the form of interest subsidy payments.

This amendment removes the requirement that a student meet the provisions of section 428(a)(2)(B) of the Higher Education Act to qualify for interest subsidy payments. Section 428(a)(2)(B), as presently written, specifies that a student qualifies for interest subsidy only if his or her adjusted family income is less than $25,000, or his or her postsecondary education institution determines that the student has an amount of need and recommends borrowing that amount.

Section 6(c)(2) is a technical amendment to section 425(a)(1)(A) of the Higher Education Act to bring it into conformance with the changes made by section 6(c)(1) of the bill.

Section 6(c)(3) amends section 428(a)(2)(B) (as redesignated by section 6(c)(1)) of the Higher Education Act) to remove clause (iv). That clause currently defines how an institution of postsecondary education is to determine a student's need for a guaranteed loan, a procedure required at present if a student wants to qualify for Federal interest subsidy and has an annual adjusted family income of $25,000 or more.

Section 6(c)(4) repeals section 428(a)(9) of the Higher Education Act. At present this paragraph establishes procedures for determining whether a loan is qualified for interest subsidy payments if the borrower is attending an institution not located in a State.

Section 6(c)(5) is a technical amendment to bring section 428(b)(1)(A)(i) of the Higher Education Act into conformance with the changes made by section 6(c)(1) of the bill.

Section 6(d)(1) amends section 438(b)(2)(A)(ii) of the Higher Education Act to provide that the special allowance rate paid by the Federal Government to lenders on their guaranteed loans will be raised by 0.5 percent while those loans are in repayment.

The special allowance rate is that percentage of the average unpaid balance of principal on guaranteed loans that the Federal Government will pay quarterly to lenders under the program. This payment is intended to encourage lender participation in the program. Currently the rate for all loans is determined by subtracting 3.5 percent from the average bond equivalent rate of 91-day Treasury bills auctioned during the quarter, rounded to the nearest one-eighth of 1 percent and divided by four. For loans in repayment, the proposed amendment would lower to 3 percent the amount subtracted from the average bond equivalent rate, in essence increasing the special allowance paid on loans in repayment of 0.5 percent.

Section 6(d)(2) makes a technical amendment to section 438(b)(2)(B) of the Higher Education Act.

Section 6(d)(3) strikes the present subparagraph (C) of section 438(b)(2) of the Higher Education Act and inserts new subparagraphs (C) and (D).

The new subparagraph (C) would establish ceilings for the special allowance payments of 5.5 percent for loans in repayment and 5 percent for other loans, and floors of 1.5 percent for loans in repayment and 1 percent for other loans. These limits apply to any 12-month period.

Current law provides a ceiling of 5 percent on the special allowance rate paid on guaranteed loans for any 12-month period. There is no minimum in effect under current law.

The new subparagraph (D) defines the term "period of repayment" for the increased special allowance rate. A loan is in repayment when it is due and not deferred.

Section 6(e) amends section 439(d)(2) of the Higher Education Act to allow the student Loan Marketing Association established by section 439 to pay 100 percent of the face value of any guaranteed loan it warehouses.

The Student Loan Marketing Association, generally referred to as Sallie Mae, carries out activities designed to increase the amount of lendable funds in the guaranteed student loan program. Sallie Mae is authorized to warehouse guaranteed loans; that is, make loans to lenders participating in the program who have provided portions of their guaranteed student loan portfolios as collateral. Current law restricts the amount which Sallie Mae can lend to 80 percent of the face value of guaranteed loans provided as collateral.

Section 7 amends section 491(b)(3) of the Higher Education Act to include in the definition of "proprietary institution of higher education" institutions which admit, as regular students, individuals beyond the age of compulsory school attendance who have the ability to benefit from the training provided.

For all of the programs of title IV (student assistance) of the Higher Education Act, except the guaranteed student loan program, section 491 defines eligible institutions. Currently, under section 491 a proprietary institution is required to meet the provisions of clause (1) of section 1201(a) of the Higher Education Act which requires institutions to admit, as regular students, only individuals with certificates of graduation from secondary schools or the equivalent. Section 1201(a) currently provides an exception to that requirement for public and nonprofit private institutions. This amendment, in essence, provides proprietary schools with the same exception for participation in title IV programs.

Section 8 amends section 497 of the Higher Education Act to add a new subsection (d) requiring that any determination of need made under the college work-study program and the national direct student loan program consider the educational expenses for other dependent children in the student's family.

Section 9(a) amends section 1208 (a) and (b) of the Higher Education Act to remove any reference in that section to part C (loans of

construction, reconstruction, and renovation of academic facilities) of title VII of the Higher Education Act.

Section 1208(a) as presently written establishes that:

(1) If in fiscal year 1978 the appropriations for the basic educational opportunity grant program, the supplemental educational opportunity grant program, the college work-study program, and the national direct student loan program equal or exceed the greater of $2.8 billion or the sum of the appropriations for those programs in fiscal year 1977, no awards can be made under these programs unless the appropriations for title I (community service and continuing education programs), part C of title VII, and title X (establishment and expansion of community colleges) of the Higher Education Act equal or exceed 50 percent of that amount;

(2) If in fiscal year 1979 the appropriations for those student aid programs equal or exceed the greater of $3.1 billion or the sum of the appropriations for these programs in fiscal year 1978, no awards can be made under these programs unless the appropriations for title I, part C of title VII and title X equal or exceed 50 percent of that amount.

Section 9(b) amends section 1208(b) of the Higher Education Act to lower from $215 million to $50 million the level of funding required to render inoperative the provisions of section 1208(a). Under the present language of section 1208(b), the provisions of section 1208 (a) are not effective for any fiscal year in which the sum of the appropriations for title I, part C of title VII and title X equals or exceeds $215 million.

Section 10 specifies that all amendments in the Middle Income Student Assistance Act will take effect upon enactment of the legislation, except for the following amendments:

(1) The amendments provided by section 2 (a), (b), and (c) are effective for periods of enrollment beginning on or after August 1, 1979.

(2) The amendments provided by section 2 (d) and (e) are effective October 1, 1978.

(3) The amendment made by section 3 is effective October 1, 1979.

(4) The amendments provided by section 6(c) are effective for loans disbursed on or after October 1, 1978, covering periods of enrollment beginning on or after August 1, 1978.

(5) The amendments made by section 6(d) are effective for fiscal quarters beginning on or after October 1, 1978.

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

Higher Education Act of 1965

* * * * * * *

TITLE IV—STUDENT ASSISTANCE

PART A—GRANTS TO STUDENTS IN ATTENDANCE AT INSTITUTIONS OF HIGHER EDUCATION

* * * * * * *

SUBPART 1—BASIC EDUCATIONAL OPPORTUNITY GRANTS

BASIC EDUCATIONAL OPPORTUNITY GRANTS: AMOUNT AND DETERMINATIONS; APPLICATIONS

SEC. 411. (a)(1) * * *

* * * * * * *

(3)(A)(i) Not later than July 1 of each calendar year, the Commissioner shall publish in the Federal Register a schedule of expected family contributions for the academic year which begins after July 1 of the calendar year which succeeds such calendar year for various levels of family income, which, except as is otherwise provided in division (ii), together with any amendments thereto, shall become effective July 1 of the calendar year which succeeds such calendar year. During the thirty-day period following such publication the Commissioner shall provide interested parties with an opportunity to present their views and make recommendations with respect to such schedule.

(ii) The schedule of expected family contributions required by division (i) for each academic year shall be submitted to the President of the Senate and the Speaker of the House of Representatives not later than the time of its publication in the Federal Register. If either the Senate or the House of Representatives adopts, prior to the first day of October next following the submission of said schedule as required by this division, a resolution of disapproval of such schedule, the Commissioner shall publish a new schedule of expected family contributions in the Federal Register not later than fifteen days after the adoption of such resolution of disapproval. Such new schedule shall take into consideration such recommendations as may be made in either House in connection with such resolution and shall become effective, together with any amendments thereto, with respect to grants to be made on or after the first day of July next following. The Commissioner shall publish together with such new schedule, a statement identifying the recommendations made in either House in connection with such resolution of disapproval and explaining his reasons for the new schedule.

(B)(i) For the purposes of this paragraph and subsection (b), the term "family contribution" with respect to any student means the amount which the family of that student may be reasonably expected to contribute toward his postsecondary education for the academic year for which the determination under subparagraph (A) of paragraph (2) is made, as determined in accordance with regulations. In promulgating such regulations, the Commissioner shall follow the basic criteria set forth in division (ii) of this subparagraph.

(ii) The basic criteria to be followed in promulgating regulations with respect to expected family contributions are as follows:

(I) The amount of the effective income of the student or the effective family income of the student's family.

(II) The number of dependents of the family of the student.

(III) The number of dependents of the student's family who are in attendance in a program of postsecondary education and for whom the family may be reasonably expected to contribute for their postsecondary education.

(IV) The amount of the assets of the student and those of the student's family.

(V) Any unusual expenses of the student or his family, such as unusual medical expenses, and those which may arise from a catastrophe.

(VI) Any educational expenses of other dependent children in the family.

(iii) For the purposes of clause (I) of division (ii), the term "effective family income" with respect to a student, and including any amount paid under the Social Security Act to, or an account of, the student which would not be paid if he were not a student and one-half any amount paid the student under chapters 34 and 35 of title 38, United States Code, means the annual adjusted family income, as determined in accordance with regulations prescribed by the Commissioner, received by the parents or guardian of that student (or the person or persons having an equivalent relationship to such student) minus Federal income tax paid or payable with respect to such income.

(iv) (I) Except as provided in subdivision (II), in determining the expected family contribution under this subparagraph for any academic year after academic year 1978–1979, an assessment rate of not more than 10.5 per centum shall be applied to parental discretionary income.

(II) For any academic year after academic year 1978–1979 for which funds available for payments under this subpart are not sufficient to satisfy fully all entitlements under this subpart determined in accordance with subdivision (I), an assessment rate of 12 per centum shall be applied to such income.

(C) The Commissioner shall promulgate special regulations for determining the expected family contribution and effective family income of a student who is determined (pursuant to regulations of the Commissioner) to be independent of his parents or guardians (or the person or persons having an equivalent relationship to such student). Such special regulations shall be consistent with the basic criteria set forth in division (ii) of subparagraph (B). *In addition, such regulations shall—*

(i) provide that the portion of assets which shall be exempt from assessment for contribution for an independent student who has one or more dependents shall be the same as the portion so exempt for the family of a dependent student;

(ii) provide that the rate of assessment for contribution on that portion of assets of such an independent student which is not exempt under subdivision (i) shall be the same as the rate applied to the comparable portion of assets of the family of a dependent student; and

(iii) in establishing a portion of effective family income which shall be exempt from assessment for contribution by reason of

subsistence requirements of independent students who have no dependents, use the same method for computation of such portion for such students as is used for dependent students and for independent students who have dependents.

* * * * * * *

(b)(1) The Commissioner shall from time to time set dates by which students must file applications for basic grants under this subpart.

(2) Each student desiring a basic grant for any year must file an application therefor containing such information and assurances as the Commissioner may deem necessary to enable him to carry out his functions and responsibilities under this subpart.

(3)(A) Payments under this section shall be made in accordance with regulations promulgated by the Commissioner for such purpose, in such manner as will best accomplish the purposes of this section.

(B)(i) If, during any period of any fiscal year, the funds available for payments under this subpart are insufficient to satisfy fully all entitlements under this subpart *determined on the basis of the assessment rate specified in subsection (a)(3)(B)(iv)(II)*, the amount paid with respect to each such entitlement shall be—

[(I) in the case of any entitlement which exceeds $1,000, 75 per centum thereof;]

(I) the full amount in the case of any entitlement which exceeds $1,600;

(II) in the case of any entitlement which exceeds $1,200 but does not exceed $1,600, 90 per centum thereof;

(III) in the case of any entitlement which exceeds $1,000 but does not exceed $1,200, 75 per centum thereof;

[II] *(IV)* in the case of any entitlement which exceeds $800 but does not exceed $1,000, 70 per centum thereof;

[III] *(V)* in the case of any entitlement which exceeds $600 but does not exceed $800, 65 per centum thereof; and

[IV] *(VI)* in the case of any entitlement which does not exceed $600, 50 per centum thereof.

* * * * * * *

(5) No payments may be made on the basis of entitlements established under this subpart during any fiscal year ending prior to October 1, 1979, in which—

(A) the appropriation for making grants under subpart 2 of this part does not at least equal [$130,093,000] *$340,093,000*; and

(B) the appropriation for work-study payments under section 441 of this title does not at least equal [$237,400,000] *$520,000,000*; and

(C) the appropriation for capital contributions to student loan funds under part E of this title does not at least equal $286,000,000.

(6) No payments may be made on the basis of entitlements established under this subpart during the fiscal year ending September 30, 1980, if, for such fiscal year—

(A) the appropriation for making grants under subpart 2 of this part does not at least equal $450,000,000;

(B) the appropriation for work-study payments under section 441 of this title does not at least equal $600,000,000; and

(C) the appropriation for capital contributions to student loan funds under part E of this title does not at least equal $286,000,000.

SUBPART 3—GRANTS TO STATES FOR STATE STUDENT INCENTIVES

* * * * * * *

APPLICATIONS FOR STATE STUDENT INCENTIVE GRANT PROGRAMS

SEC. 415C. (a) A State which desires to obtain a payment under this subpart for any fiscal year shall submit an application therefor through the State agency administering its program of student grants, at such time or times, and containing such information as may be required by, or pursuant to, regulation for the purpose of enabling the Commissioner to make the determinations required under this subpart.

(b) From a State's allotment under this subpart for any fiscal year the Commissioner is authorized to make payments to such State for paying 50 per centum of the amount of student grants pursuant to a State program which—

(1) is administered by a single State agency;

(2) provides that such grants will be in amounts not in excess of $1,500 per academic year for attendance on a full-time basis as an undergraduate at an institution of higher education;

(3) provides for the selection of recipients of such grants on the basis of substantial financial need determined annually on the basis of criteria established by the State and approved by the Commissioner;

(4) provides that, effective with respect to any academic year beginning on or after October 1, 1978, all nonprofit institutions of higher education in the State are eligible to participate in the State program;

[(5) provides for the payment of the non-Federal portion of such grants from funds supplied by such State which represent an additional expenditure for such year by such State for grants for students attending institutions of higher education over the amount expended by such State for such grants, if any, during the second fiscal year preceding the fiscal year in which such State initially received funds under this subpart; and]

(5) provides that—

(A) in any fiscal year for which the total appropriation for this program does not exceed $75,000,000, the payment of the non-Federal portion of such grants from funds supplied by such State shall represent an additional expenditure for such year by such State for grants for students attending institutions of higher education over the amount expended by such State for such grants, if any, during the second fiscal year preceding the fiscal year in which such State initially received funds under this subpart;

(B) in the first fiscal year in which the total appropriation for this program equals or exceeds $75,000,000, the amount

of funds expended by each State for the non-Federal portion of awards from allotments based on the entire amount appropriated shall be governed by subparagraph (A), and in any subsequent fiscal year in which the amount appropriated equals or exceeds $75,000,000, the amount of funds expended by each State for the non-Federal portion of awards made from allotments based on funds appropriated in excess of $75,000,000 (exclusive of funds required for purposes of section 415E) shall represent an additional expenditure for that year by such State over the amounts, if any, expended by such State for student grants during the second fiscal year preceding the fiscal year in which such State initially received funds under this subparagraph (B); and

(C) the amount of funds expended by the State for the non-Federal portion of grants made pursuant to section 415E shall also be governed by subparagraph (A); and

* * * * * * *

SUBPART 4—SPECIAL PROGRAMS FOR STUDENTS FROM DISADVANTAGED BACKGROUNDS

* * * * * * *

AUTHORIZED ACTIVITIES

SEC. 417B. (a) The Commissioner is authorized (without regard to section 3709 of the Revised Statutes (41 U.S.C. 5)) to make grants to, and contracts with, institutions of higher education, including institutions with vocational and career education programs, combinations of such institutions, public and private agencies and organizations (including professional and scholarly associations), and, in exceptional cases, secondary schools and secondary vocational schools, for planning, developing, or carrying out within the States one or more of the services described in subsection (b) of this section.

(b) Services provided through grants and contracts under this subpart shall be specifically designed to assist in enabling youths from low-income families who have academic potential, but who may lack adequate secondary schoool preparation, who may be physically handicapped, or who may be disadvantaged because of severe rural isolation, to enter, continue, or resume programs of postsecondary education, including—

(1) * * *

* * * * * * *

(5) a program of paying up to 90 per centum of the cost of establishing and operating or expanding service learning centers at institutions of higher education and other postsecondary educational institutions serving a substantial number of disadvantaged students which—

(A) will provide remedial and other special rates for students who are enrolled or accepted for enrollment at that institution, and

(B) will serve, as a concentrated effort, to coordinate and supplement the ability of that institution to furnish such

services to such students. Before making a grant or entering into a contract under clause (5) of the first sentence of this subsection the Commissioner may require any institution subject to such a contract or grant to submit an application containing or accompanied by such information, including the ability of that institution to pay the non-Federal share of the costs of the project to be assisted, as is essential to carry out the requirements of that clause.

No individual who is an eligible veteran, as that term is defined by section 1652(a) of title 38, United States Code, shall be deemed ineligible to participate in any program under this subsection by reason of such individual's age.

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SUBPART 6—ASSISTANCE TO INSTITUTIONS OF HIGHER EDUCATION

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VETERAN'S COST-OF-INSTRUCTION PAYMENTS TO INSTITUTIONS OF HIGHER EDUCATION

SEC. 420. (a)(1) * * *

* * * * * * *

[(3) During the period beginning July 1, 1976, and ending September 30, 1977, each institution which has qualified for payment under this section for the preceding year shall be entitled during such period, notwithstanding paragraph (1), to a payment under this section, if the number of persons referred to in such paragraph (1), equals whichever is the lesser of (A) at least the number of such persons who were in attendance at such institution during the preceding academic year less the number of such persons whose eligibility for educational assistance under chapter 34 of title 38, United States Code, expired on May 31, 1976, by virtue of section 1662(c) of such title, or (B) at least the minimum number of such persons necessary to establish eligibility to entitlement under paragraph (1) during the preceding academic year less the number of such persons whose eligibility for educational assistance under chapter 34 of title 38, United States Code, expired on May 31, 1976, by virtue of section 1662(c) of such title.]

(3) With respect to any academic year beginning on or after July 1, 1978, and ending on or before September 30, 1980, each institution which has qualified for payment under this section for the preceding year shall be entitled during such period, notwithstanding paragraph (1)(A), to a payment under this section, if the Commissioner determines that such institution is making a good faith effort to continue to enroll veterans in the educational programs of that institution.

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PART B—FEDERAL, STATE, AND PRIVATE PROGRAMS OF LOW-INTEREST INSURED LOANS TO STUDENTS IN INSTITUTIONS OF HIGHER EDUCATION

* * * * * * *

ADVANCES FOR RESERVE FUNDS OF STATE AND NONPROFIT PRIVATE LOAN INSURANCE PROGRAMS

SEC. 422. (a) * * *

* * * * * * *

(c)(1) * * *

* * * * * * *

(5) Advances pursuant to this subsection shall be made to a State—

(A) in the case of a State which is actively carrying on a program under an agreement pursuant to section 428(b) which was entered into before the [effective] date *of enactment* of this subsection, upon such date as such State may request, but not before October 1, 1977, and on the same day of each of the two succeeding calendar years after the date so requested; and

(B) in the case of a State which enters into an agreement pursuant to section 428(b) on or after the [effective] date *of enactment* of this subsection or which is not actively carrying on a program under an agreement pursuant to such section on such date, upon such date as such State may request, but not before October 1, 1977, and on the same day of each of the four succeeding calendar years after the date so requested of the advance.

* * * * * * *

LIMITATIONS ON INDIVIDUAL FEDERALLY INSURED LOANS AND ON FEDERAL LOAN INSURANCE

SEC. 425. (a)(1) The total of loans made to a student in any academic year or its equivalent (as determined by the Commissioner) which may be covered by Federal loan insurance under this part may not exceed $2,500 in the case of a student who has not successfully completed a program of undergraduate education, or $5,000 in the case of a graduate or professional student (as defined in regulations of the Commissioner), except—

(A) that in the case of loans to a student for his first academic year of a program of postsecondary education, and who has not previously enrolled in such a program, which are made by an eligible lender as described in section 435(g)(1)(D) or which are made or originated (as defined in section 433(b)) by an eligible institution, the total of such loans may not exceed the lesser of $2,500 or 50 per centum of the estimated cost of attendance (calculated in accordance with the provisions of section 428(a)(2)[(C)](*B*)(i)),

(B) that in the case of a loan made or originated (as defined in section 433(b)) by an eligible institution which is made to such a first-year student, the loan may exceed $1,500 only if it is to be disbursed in two or more installments none of which exceeds one-half of the loan, with the interval between the first and second of such installments being not less than one-third of the period of enrollment for which the student received the loan, and

(C) in cases where the Commissioner determines, pursuant to regulations prescribed by him, that a higher amount is warranted

in order to carry out the purposes of this part with respect to students engaged in specialized training requiring exceptionally high cost of education.

The annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any year in excess of the annual limit. For the purpose of clause (B), all loans made within any period of 90 days shall be considered a single loan.

* * * * * * *

ELIGIBILITY OF STUDENT BORROWERS AND TERMS OF FEDERALLY INSURED STUDENT LOANS

SEC. 427. (a) A loan by an eligible lender shall be insurable by the Commissioner under the provisions of this part only if—

(1) made to a student who (A) has been accepted for enrollment at an eligible institution or, in the case of a student already attending such institution, is in good standing there as determined by the institution, (B) is carrying at least one-half of the normal fulltime workload as determined by the institution, and (C) has agreed to notify promptly the holder of the loan concerning any change of address; and

(2) evidenced by a note or other written agreement which—

(A) * * *

* * * * * * *

(C) provides that periodic installments of principal need not be paid, but interests shall accrue and be paid, during any period (i) during which the borrower is pursuing a full-time course of study at an "eligible institution", [or] is pursuing a course of study pursuant to a graduate fellowship program approved by the Commissioner, *or pursuant to a rehabilitation training program for disabled individuals approved by the Commissioner*, (ii) not in excess of three years during which the borrower is a member of the Armed Forces of the United States, (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, (iv) not in excess of three years during which the borrower is in service as a full-time volunteer under the Domestic Volunteer Service Act of 1973, or (v) during a single period, not in excess of twelve months, at the request of the borrower, during which the borrower is seeking and unable to find full-time employment, and any such period shall not be included in determining the ten-year period or the fifteen-year period provided in clause (B) above,

* * * * * * *

FEDERAL PAYMENTS TO REDUCE STUDENT INTEREST COSTS

SEC. 428. (a)(1) * * *

* * * * * * *

[(2)(A) Each student qualifying for a portion of an interest payment under paragraph (1) shall—

[(i) have provided to the lender a statement from the eligible institution, at which the student has been accepted for enrollment, or at which he is in attendance in good standing (as determined by such institution), which—

[(I) sets forth such student's estimated cost of attendance and

[(II) sets forth such student's estimated financial assistance; and

[(ii) meet the requirements of subparagraph (B).

[(B) For the purposes of clause (ii) of subparagraph (A), a student shall qualify for a portion of an interest payment under paragraph (1) if such student's adjusted family income at the time of execution of the note or written agreement evidencing such loan—

[(i) is less than $25,000; or

[(ii) is equal to or greater than $25,000 and the eligible institution has provided the lender with a statement evidencing a determination of need and recommending a loan in the amount of such need.]

(2)(A) Each student qualifying for a portion of an interest payment under paragraph (1) shall have provided to the lender a statement from the eligible institution, at which the student has been accepted for enrollment, or at which he is in attendance in good standing (as determined by the institution), which—

(i) sets forth such student's estimated cost of attendance, and

(ii) sets forth such student's estimated financial assistance.

[(C)](B) For the purposes of paragraph (1) and this paragraph—

(i) a student's estimated cost of attendance means, for the period for which the loan is sought, the tuition and fees applicable to such student together with the institution's estimate of other expenses reasonably related to attendance at such institution, including, but not limited to, the cost of room and board, reasonable commuting costs, and costs for books;

(ii) a student's estimated financial assistance means, for the period for which the loan is sought, the amount of assistance such student will receive under parts A, C, and E of this title, plus other scholarship, grant, or loan assistance;

(iii) the term "eligible institution" when used with respect to a student is the eligible institution at which the student has been accepted for enrollment or, in the case of a student who is in attendance at such an institution, at which the student is in good standing (as determined by such institution)[;].

[(iv) the determination of need and the amount of a loan recommended by an eligible institution under subparagraph (B)(ii) with respect to a student shall be determined by subtracting from the estimated cost of attendance at such institution the total of the expected family contribution with respect to such student (as determined by means other than one formulated by the Commissioner under subpart 1 of part A of this title) plus any other resources or student financial assistance reasonably available to such student.

[(D) For the purposes of this paragraph, the adjusted family income of a student shall be determined pursuant to regulations of the

Commission in effect at the time of the execution of the note or written agreement evidencing the loan. Such regulations shall provide for taking into account such factors, including family size, as the Commissioner deems appropriate. In the absence of fraud by the lender, such determination of the need of a student under this paragraph shall be final insofar as it concerns the obligation of the Commissioner to pay the holder of a loan a portion of the interest on the loan.]

* * * * * * *

[(9) With respect to any loan for which a determination must be made as to whether a portion of the interest is payable under this section, in the case of a student attending an eligible institution which is located in other than a State, the determination to be made and the statement to be provided by such institution under paragraph (2)(B)(ii) of this subsection shall be made and provided by (A) the Commissioner in the case of a loan described by paragraph (1)(A), (B) the State in the case of a loan described by paragraph (1)(B), or (C) the State or a nonprofit private institution or organization as the case may be, in the case of a loan described by paragraph (1)(C).]

(b)(1) Any State or any nonprofit private institution or organization may enter into an agreement with the Commissioner for the purpose of entitling students who receive loans which are insured under a student loan insurance program of that State, institution, or organization to have made on their behalf the payments provided for in subsection (a) if the Commissioner determines that the student loan insurance program—

(A) authorizes the insurance in any academic year or its equivalent (as determined under regulations of the Commissioner) of not less than $1,000 nor more than $2,500 in the case of a student who has not successfully completed a program of undergraduate education, or $5,000 in the case of a graduate or professional student (as defined in regulations of the Commissioner), except—

(i) that the program may not authorize the insurance of loans which are made by an eligible lender as described in section 435(g)(D) or which are made or originated (as defined in section 433(b)) by an eligible institution to a student for his first academic year of a program of postsecondary education, and who has not previously enrolled in such a program, in an amount in excess of the lesser of $2,500 or 50 per centum of the estimated cost of attendance (calculated in accordance with section 428(a)(2)[(C)](*B*)(i)),

(ii) that the program may not authorize the insurance of a loan in excess of $1,500 for an academic year which is made or originated (as defined in section 433(b)) by an eligible institution, and is made to such a first-year student unless the loan is to be disbursed in two or more installments, none of which exceeds one-half of the loan, with the interval between the first and second of such installments being not less than one-third of the period of enrollment for which the student received the loan, and

(iii) in cases where the Commissioner determines, pursuant to regulations prescribed by him, that a higher amount is warranted in order to carry out the purposes of this part with respect to students engaged in specialized training requiring exceptionally high costs of education,

but the annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any years in excess of the annual limit, and all loans issued within any period of 90 days shall be considered as a single loan for purposes of division (ii);

* * * * * * *

(M) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid during any period (i) during which the borrower is pursuing a full-time course of study at an eligible institution, [or] is pursuing a course of study pursuant to a graduate fellowship program approved by the Commissioner, *or pursuant to a rehabilitation training program for disabled individuals approved by the Commissioner*, (ii) not in excess of three years during which the borrower is a member of the Armed Forces of the United States, (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, (iv) not in excess of three years during which the borrower is in service as a full-time volunteer under the Domestic Volunteer Service Act of 1973, or (v) during a single period, not in excess of twelve months, at the request of the borrower, during which the borrower is seeking and unable to find full-time employment;

* * * * * * *

SPECIAL ALLOWANCES

SEC. 438. (a) * * *

(b)(1) A special allowance shall be paid for each of the three-month periods ending March 31, June 30, September 30, and December 31 of every year and the amount of such allowance paid to any holder with respect to any three-month period shall be a percentage of the average unpaid balance of principal (not including unearned interest added to principal) of all eligible loans held by such holder during such period.

(2)(A) Subject to subparagraphs (B) and (C) and paragraph (4), the special allowance paid pursuant to this subsection shall be computed (i) by determining the average of the bond equivalent rates of the ninety-one-day Treasury bills auctioned for such three-month period, (ii) by subtracting [3.5 per centum from such average.] *3 per centum from such average for any loan which was in a period of repayment or subtracting 3.5 per centum from such average for any other loan*, (iii) by rounding the resultant per centum upward to the nearest one-eighth of 1 per centum, and (iv) by dividing the resultant per centum by four.

(B) Except as provided in paragraph (4), if the special allowance computed according to subparagraph (A) would [(i)] cause the special allowance for any twelve-month period during the period ending September 30, 1977, to exceed 3 per centum, the special allowance rate to be paid for such period shall be reduced to the highest one-eighth of 1 per centum rate interval which would not cause such excess.

(C) Except as provided in paragraph (4), if the special allowance computed according to subparagraph (A) would (i) cause the special allowance for any twelve-month period [after October 1, 1977, to exceed 5 per centum, the special allowance rate to be paid for such period shall be reduced to the highest one-eighth of 1 per centum rate which would not cause such excess.] *to exceed 5.5 per centum in the case of loans which were in a period of repayment or to exceed 5 per centum in the case of any other loans, the special allowance rate to be paid for such three-month period shall be reduced to the highest one-eighth of 1 per centum rate which would not cause such excess; or (ii) cause such allowance for any such three-month period to be less than 1.5 per centum in the case of loans which were in a period of repayment or less than 1 per centum in the case of other loans, the special allowance rate to be paid for such three-month period shall be increased to the lowest one-eighth of 1 per centum rate which would not cause such difference.*

(D) For purposes of this paragraph, the term "period of repayment" means any period during which any installment of principal has become due in accordance with section 427(a)(2)(B) or 428(b)(1)(E) and such installment is not deferred pursuant to section 427(a)(2)(C) or 428(b)(1)(M).

STUDENT LOAN MARKETING ASSOCIATION

SEC. 439. (a) * * *

* * * * * * *

(d)(1) The Association is authorized, subject to the provisions of this section, pursuant to commitments or otherwise, to made advances on the security of, purchase, service, sell, or otherwise deal in, at prices and on terms and conditions determined by the Association, student loans which are insured by the Commission under this part or by a State or nonprofit private institution or organization with which the Commissioner has an agreement under section 428(b).

(2) Any warehousing advance made under paragraph (1) of this subsection shall not exceed [80] *100* per centum of the face amount on an insured loan. The proceeds from any such advance shall be invested in additional insured student loans.

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PART F—GENERAL PROVISIONS RELATING TO STUDENT ASSISTANCE PROGRAMS

Subpart 1—General Provisions

SEC. 491. (a) * * *
(b)(1) * * *

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(3) For the purposes of this subsection, the term "proprietary institution of higher education" means a school (A) which provides not less than a six-month program of training to prepare students for gainful employment in a recognized occupation, (B) which meets the requirements of clauses (1) and (2) of section 1201(a), (C) which does not meet the requirement of section clause (4) of section 1201(a), (D) which is accredited by a nationally recognized accrediting agency or association approved by the Commissioner for this purpose, and (E) which has been in existence for at least two years. *Such term also includes a proprietary educational institution in any State which, in lieu of the requirement in clause (1) of section 1201(a), admits as regular students persons who are beyond the age of compulsory school attendance in the State in which the institution is located and who have the ability to benefit from the training offered by the institution.* For purposes of this paragraph, the Commissioner shall publish a list of nationally recognized accrediting agencies or associations which he determines to be reliable authority as to the quality of training offered.

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ELIGIBILITY FOR STUDENT ASSISTANCE

SEC. 497. (a) * * *

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(d) Any determinations of need made for the purposes of part C or part E of this title shall include considerations of the factor described in section 413C(a)(2)(v). Nothing in this subsection shall be deemed to prohibit the taking into account for the purposes of such parts of other factors used for the determination of need under other parts of this title.

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TITLE XII—GENERAL PROVISIONS

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FUNDING REQUIREMENT

SEC. 1208. (a) Except as provided in subsection (b)—

(1) if the sum of the appropriations available for carrying out subparts 1 and 2 of part A, and parts C and E, of title IV in fiscal year 1978 equals or exceeds an amount equal to the greater of—

(A) $2,800,000,000; or

(B) the sum of the appropriations available for carrying out subparts 1 and 2 of part A, and parts C and E, of title IV in fiscal year 1977,

no payments, awards, or grants may be made from the portion of the funds appropriated therefor in excess of such amount unless the sum of the appropriations available for carrying out title I [, part C of title VII,] and title X equals or exceeds 50 per centum of such amount; and

(2) if the sum of the appropriations available for carrying out subparts 1 and 2 of part A, and parts C and E, of title IV in fiscal year 1979 equals or exceeds an amount equal to the greater of—

(A) $3,100,000,000; or

(B) the sum of the appropriations available for carrying out subparts 1 and 2 of part A, and parts C and E, of title IV in fiscal year 1978,

no payments, awards, or grants may be made from the portion of the funds appropriated therefor in excess of such amount unless the sum of the appropriations available for carrying out title I, part C of title VII, and title X equals or exceeds 50 per centum of such amount.

(b) The provisions of subsection (a) shall not be effective for any fiscal year in which the sum of the appropriations available for carrying out title I [, part C of title VII,] and title X equals or exceeds [$215,000,000] *$50,000,000*.

ADDITIONAL VIEWS

Federal student financial aid for middle-income families is definitely "an idea whose time has come." We commend the administration and members of this committee for taking prompt action in an area where assistance is long overdue and therefore support this bill as reported. We believe, though, that more money for student grants, low-cost loans and work study programs is not the only method to help middle-income families in their struggle with the high cost of educating their children.

It is unfortunate that the administration plan was proposed in response to a "fear" that Congress might enact some form of a tuition tax credit proposal. The administration and the Congress should not fear tuition tax credits, but should accept them as a proper means of lessening the burden of the costs of education. Increased student aid through existing programs and the existence of tuition tax credits are not mutually exclusive. Both forms of assistance have their advantages and, in many cases, solve different problems.

There is general agreement on what problem exists—costs of an education are spiraling and something must be done quickly. Over the last 6-year period, the mean increase in tuition and fees at post-secondary public 4-year institutions has been 57.2 percent. Costs of attending a private institution have increased even more—63.2 percent.

In the majority views, arguments were made for expanding existing student aid programs as the only solution to the problem of alleviating the college tuition burden. We feel that the advantages of tuition tax credits should be reviewed by the Congress before adopting this bill alone as the panacea.

Tax credits are well accepted and understood by nearly everyone. The use of a tax credit includes no bureaucracy and no complicated needs analysis. Tuition tax credits give certainty and predictability to family planning for their children's education. A family knows that extra money will be available, approximately how much, and therefore can plan accordingly. Moreover, a family could even adjust withholding allowances so that the money would be available on a periodic basis, or the family could receive that money as a refund after filing.

A tax credit is also sensitive to cost. Under most tuition tax credit proposals, the credit would be only for 50 percent of the cost of tuition. The use of a tax credit would also assure a greater sense of family responsibility since the family would provide 50 percent of the cost and would be encouraged to maintain responsibility for the education of the children.

The charge has been made that tuition tax credits will result in large tax loopholes to the rich in the country. The facts do not support that conclusion. Over 78 percent of the tuition tax benefits will go to those with annual incomes below $25,000. Although $25,000 may

be considered a good income by many, it is hardly one which would enable a family to dedicate $3,000 to $7,000 per year to college expenses. Moreover, many current Federal programs, such as social security, provide benefits to persons in the upper income bracket.

Already there exists widespread precedence for tax credits. Both the Federal and State governments allow tax credits to individual taxpayers as a means of promoting certain activities or as a sign of a particular government interest in certain groups of people. Certainly, few activities merit promotion as much as the education of this Nation's citizens.

Some assistance must be given to students and families who must bear the ever-increasing costs of education. We support H.R. 11274 and we urge our colleagues to do so, but we do not support the bill as an alternative to tax credits. Tax credits represent tax relief; this bill represents aid to students. We hope that the Congress will find a way to merge these two approaches and that the President will not veto one approach to the exclusion of the other. Both are needed. We will, therefore, continue to support tuition tax relief legislation and urge its adoption on the House floor.

MARIO BIAGGI.
MICHAEL T. BLOUIN.
ROBERT J. CORNELL.
EDWARD P. BEARD.
LEO C. ZEFERETTI.
RONALD M. MOTTL.
MICHAEL O. MYERS.
AUSTIN J. MURPHY.
JOSEPH A. LE FANTE.
BALTASAR CORRADA.
DALE E. KILDEE.
ALBERT H. QUIE.
RONALD A. SARASIN.
LARRY PRESSLER.
WILLIAM F. GOODLING.
SHIRLEY N. PETTIS.
CARL D. PURSELL.

INDIVIDUAL VIEWS BY REPRESENTATIVE JAMES M. JEFFORDS

The importance of education aid to postsecondary students is an issue which has grown in this Congress. To provide some sort of comprehensive aid program the administration has proposed an expansion of existing Federal aid programs, while many members of the House and Senate have advocated a tuition tax credit program. In these minority views, the idea has been advanced that in order to provide the most effective aid program, the Middle Income Student Assistance Act should be combined with the tax credit. I would urge Members to consider another alternative: the combination of the Administration's proposal with an individual trust fund concept.

The establishment of a trust fund would allow families to set aside a certain amount of tax-deductible savings each year for a child's future college education. As long as the expenditures from the fund were for education expenses, trust fund expenditures would be tax free also. Families would be encouraged to help themselves meet college costs, rather than relying on direct Federal aid.

The trust fund concept incorporates all of the advantages of the tax credit; it is administratively simple, and it creates no new agencies. In addition, a trust fund would provide more realistic amounts of money than a $250 or $500 tax credit. Trust fund receipts would yield greater benefits than the administrations proposal. Moreover, a trust fund would aid the economy through the buildup of capital in the private sector, and the encouragement of self-sufficiency.

The combination of the President's proposal with trust funds for higher education could provide the most realistic and significant education aid program for all students.

JAMES M. JEFFORDS.

DISSENTING VIEWS

We, too, are very concerned about the spiraling costs of higher education and the impact of these costs on middle income families. While we support the objective of H.R. 11274, we do not believe expansion of existing student aid programs is the best method to meet this objective and, therefore, oppose H.R. 11274 as reported by the committee.

We firmly believe that tuition tax credits are the simplest, most direct way to assist Americans in dealing with these costs, and therefore support those portions of the additional views which argue for the adoption of some form of tuition tax credit legislation.

Many tuition tax credit proposals have been introduced in both Houses of Congress. The Senate Finance Committee showed great wisdom recently in reporting, almost unanimously, one such proposal to the full Senate. We are pleased to note that the House Committee on Ways and Means has begun hearings on tuition tax legislation and urge them to expedite their consideration.

Many reasons were cited in the additional views why tuition tax credit legislation should be adopted. We would like to add that our support for tuition tax credits and opposition to H.R. 11274 does not in any way indicate a lack of support for lower income families. On the contrary, we believe that tuition tax credit legislation will serve to guarantee that no person be denied a college education on economic grounds alone. It would allow taxpayers to keep more of their earnings, instead of going through the morass of bureaucracy to obtain student aid.

The Internal Revenue Service already has the capability to process a tuition tax credit. No added bureaucracy is necessary. Compare this to the problems associated with processing student aid applications and one wonders why anyone could oppose the simplicity of a tax credit for tuition costs.

We believe that a tuition tax credit will help stimulate the diversity that has in the past characterized American education. The proportion of college students attending private colleges and universities has decreased in recent years due to the ever-expanding gap between tuition costs for private and public colleges. The freedom of choice of institutions is therefore being denied many students. Tuition tax credit legislation will help to promote freedom of choice.

We therefore oppose H.R. 11274 and urge our colleagues to strongly support tuition tax credit legislation.

JOHN M. ASHBROOK.
JOHN N. ERLENBORN.
BUD SHUSTER.

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